



FAIR DEALER NEWSLETTER

Quarterly updates for the dealer and manufacturer industry

www.dol.wa.gov/business/vehiclevesseldealer/dlrresources.html

August 2008

Greetings from the Administrator



My, oh my, what a difference a few months can make! It is only a slight exaggeration on my part to observe that when I wrote my last article for the

Fair Dealer back in April, gasoline and diesel fuel were a dollar per gallon cheaper than they are today. I am sure you probably experienced the same shock, dismay and feeling of victimization that I felt as I watched fuel prices spiraling up. The prices seemingly increased exponentially on a daily basis and there was no way to stop the madness!

Looking back on the last few months, a couple of things now seem painfully obvious. One is that these outrageous prices have sent serious shockwaves throughout the entire automotive and transportation industries. The other is that the high fuel prices are likely here to stay.

Most folks can't just pile the kids into the mini-van and head out to Mount Rushmore or Disneyland anymore without seriously considering the increased cost of the fuel.

And even hopping on a plane has become increasingly pricey. The term "stay-cations" has been used with some regularity lately to refer to the inclination of people to stay closer to home for their summer getaways. That catchy term seems to capture the new trend very well. Virtually all of us are feeling the pinch of the high fuel prices and have adjusted in some way or another to the new economic reality of high fuel prices.

It seems that the motor vehicle industry has been particularly hard hit, especially the manufacturers that have relied heavily on full-size pickups and SUVs as profit centers. It seems that we consumers are a fickle lot -- we demanded the light trucks and SUVs, purchasing them in record numbers, then we seemingly walked away from them overnight. Now we are all about hybrids, sub-compacts, and scooters. Fortunately, virtually all of the big manufacturers have models that offer excellent economy which should ease the transition toward meeting the demands of the new marketplace.

Greetings from the Administrator (continued)

I want to touch on a couple of internal DOL issues in the interest of keeping you informed. This is kind of a potpourri of issues so I apologize for jumping around all over the map.

I have been involved in discussions with some of you and with representatives from the motor vehicle sales industry across the nation on the subject of dealer bonding requirements. I am still involved in this review and have asked for input from my counterparts in other states to see how Washington state requirements compare to other areas. At this point in time, I have received information back from 16 states. The preliminary “down and dirty” comparison makes it appear that Washington State is low compared to the average. Discussion with you, the dealer associations, and other industry representatives will continue along with the ongoing research before any decision is made about where we go from here.

Last year I attended an industry workshop where a lively discussion was held on the subject of unlicensed vehicle sales, commonly called curbstoning. One of the presentations at the workshop included a PowerPoint presentation indicating that “60 to 90 percent” of vehicles advertised in classified ads are placed there by curbers. That is a staggering statistic in my opinion.

Dealer Services investigators have been responding to complaints of unlicensed vehicle sales and will continue to. As many of you know, since late last year, DOL has been teamed up with the Washington State Patrol (WSP) on a project directly aimed at detecting and prosecuting curbstoners that bring vehicles through the WSP VIN lanes. I commented on this in my Fair Dealer remarks last quarter but I want to mention here that the project has been successful beyond anyone’s expectations and it continues to grow. It has become so big now that we have found it necessary to prepare a legislative request asking for another staff member to keep up with the demand. This request was recently approved by the DOL executive staff and will be forwarded to the Office of Financial Management for further review and preparation for introduction to the legislature.

Thanks to all of you for your feedback to our Dealer Services staff on how we may work better with you in maintaining a fair and equitable vehicle sales marketplace. We appreciate the opportunities we have to communicate with you on industry issues big and small. For information, Dealer Services will be hosting an “Industry Advisory Committee” meeting in October that you are all welcome to attend. The exact date and location will be finalized shortly and we will get the word out.

Dan Devoe
Administrator



Curbstoners

Curbstoners are used car dealers posing as private sellers. Curbstoners will sell used cars out of their home, or on the side of the road. Curbstoners may also recruit other people to help sell used vehicles.

Curbstoners generally sell vehicles with questionable histories including vehicles with rolled back odometers, hidden mechanical problems, or wrecked cars and salvaged vehicles that “cosmetically” look good. Curbstoners normally sell vehicles below book value and give the buyer a hard luck story why they must sell the vehicle. Buyers are taken in by the lure of a low price and the attitude of “his loss my gain.”

What’s wrong with a salvage car or salvage truck?



No one knows how many salvage vehicles are repaired by incompetent mechanics or crooks just looking to make a fast buck with shoddy and incomplete repairs.

Blown airbags may not have been replaced. Some companies even sell dangerous fake airbag covers that look like the real thing! Bent vehicle frames may not have been straightened and damaged parts may not have been replaced or repaired at all. The front half of the car may not come from the same car as the back half (called a clipped car). Mandatory rebuilt vehicle safety inspections may never have taken place because the repair shops are provided with vehicle titles that weren’t 100 percent truthful about their past record.

A Salvage vehicle can be worth thousands of dollars less than one that is not a salvage vehicle. Industry sources report the decrease in value is at least 20 percent and may be 50 percent or more, depending on the particular vehicle. “Diminished value” is what it’s called and there are experts who can help you figure out how much it amounts to even when the salvage vehicle is repaired properly, let alone when it’s not.



Washington's Department of Licensing (DOL) provides plenty of information on salvaged vehicles, including how they are defined in the state, how they are reported, and retitled them, and more.

Washington defines a salvage vehicle as one that has been damaged to the extent that it is uneconomical to repair it – such as when an insurance company deems a wrecked car to be a total loss. This must be documented by the title being handed over to the DOL.

The following parties are responsible for declaring a vehicle destroyed, wrecked, or otherwise a total loss and reporting it to the DOL:

- Insurance companies providing coverage for the vehicle in question
- Licensed wreckers
- Registered or legal owners

Insurance companies must notify the DOL within 15 days of filing a claim or settlement on a wrecked or destroyed vehicle. Washington car wreckers must notify the DOL by the 10th of any month following a salvage vehicle acquisition. As for registered owners, they must give the title to the DOL within 15 days of the vehicle's damage or destruction.

When reporting a salvage vehicle, the DOL asks that you provide the following information:

- Vehicle identification number (VIN)
- License plate number
- Registered owner name and address
- Name and address of the insurance company declaring the vehicle salvaged

You must also write the word "DESTROYED" in all capital letters across the face of the title.

Washington drivers may not operate vehicles that have been reported damaged, destroyed, wrecked, a total loss, or salvaged. In fact, you can't even park such a car on a public road.

You may, however, retitle a salvage vehicle, provided it has been inspected and approved by the Washington State Patrol (WSP) and you have paid all the required license and title fees.

Salvaged Vehicles

Frequently Asked Questions (FAQs)

What is a salvage vehicle?

A salvage vehicle is a vehicle that:

- Has been damaged to the extent that it has been declared a total loss, and
- The vehicle's registered or legal owner, insurance company, or another person acting on behalf of the owner has determined would not be economical to repair.

Who is required to tell DOL that a vehicle has been declared salvage?

Either you or your insurance company must report that the vehicle has been declared salvage, and surrender your Certificate of Ownership (title) to the Department of Licensing.

- The registered or legal owner must surrender the Certificate of Ownership within 15 days of the destruction.
- An insurance company must surrender the Certificate of Ownership within 15 days after the settlement of claim.

How do I report that a vehicle has been declared salvage?

When you report a salvage vehicle and surrender the title, you must:

1. Give us the following information:
 - Vehicle Identification Number (VIN)
 - Vehicle license plate number
 - Name and address of the registered owner
 - Name and address of the legal owner (if applicable)
 - Name and address of the insurance company that declared the vehicle salvage (if applicable)
2. Provide a statement indicating whether or not the market value threshold amount was met.
3. Write the word "DESTROYED" across the face of the Certificate of Ownership (title).

What is Market Value Threshold?

The vehicle meets the definition of the "market value threshold" if it:

- Is between 6 and 20 years of age.
- Is a passenger vehicle, light-duty truck, or sport utility vehicle (SUV), and
- Has a retail value of \$6,790 or more prior to being destroyed, damaged, wrecked or declared a total loss.

Can a vehicle that is declared salvage still be legally driven?

No. The vehicle cannot legally be driven or parked on public highways or roads until a new title has been issued.

What are my options once a vehicle has been declared a total loss?

You have 4 options for what to do next:

- Sell the vehicle to a new owner. Include the Notice of Cancellation letter, and a notarized bill of sale.
- Keep the vehicle and repair it.
- Keep the vehicle without repairing it.
- Use the vehicle for parts.

Will I receive a rebuilt brand on the car?

If a Certificate of Ownership (title) is being reissued on the car, it may be branded as “WA REBUILT” if your vehicle:

- Is 5 years old or newer, or
- Meets the “market value threshold” criteria.

What is Diminished Value (DV)?

Diminished Value (DV) is the loss in market value that occurs when a vehicle is wrecked and repaired. Although the repairs may have been done to the best of human ability, no one will pay full value for that vehicle ever again. Let’s assume you were shopping for a late model used vehicle. You come upon 2 identical vehicles that match what you’re looking for. These vehicles are the same year, make and model. They have the same mileage and options. They appear to be in the same general condition. The sticker price for both vehicles is \$20,000. You ask if either vehicle has ever been wrecked and are told that one of the vehicles has sustained \$6,500.00 in collision damage, but the repairs were very well done and you can not tell there was ever any damage. Which vehicle are you likely to buy? How much of a discount in the price of the previously wrecked vehicle would have to be offered for you to consider buying it.

What determines a vehicles Fair Market Value?

Fair Market Value is defined as the amount at which the property would change hands between a willing buyer and a willing seller, each being under no pressure to buy or sell and each being aware of relevant facts.

Collision history is a relevant fact.

Vehicle values are based on the perception of the buying public. As is the case with any item of value, the fact that a vehicle has been damaged and repaired will have a negative effect on its value. Most consumers today utilize numerous information sources when making a purchasing decision. With the creation of several Internet based vehicle history reporting companies, such as CARFAX, it is easier than ever before to research the history of a vehicle.

Dealers Urge Congress to Make Total Loss Insurance Data on Wrecked, Flooded, and Stolen Vehicles Available to Consumers

Issue

Each year thousands of wrecked, flooded or stolen vehicles are sold with clean titles to unsuspecting consumers. Insurance companies sell ‘totaled cars’ at salvage auction, but often the totaled cars are not branded as salvage vehicles. Even if an insurer properly brands the title of a totaled vehicle, the unscrupulous can remove a branded title to hide the car’s true history. A more transparent system is needed to protect consumers from unknowingly purchasing totaled vehicles. Congress should pass consumer protection legislation that requires the insurance companies to disclose the VINs of totaled vehicles to the public, to permanently “red flag” totaled vehicles and put future purchasers on notice that a car has been totaled.

Background

Last year, over 5 million vehicles were totaled. Many totaled vehicles are resold at salvage auctions, rebuilt, and reenter the market with a clean vehicle title. Consumers suffer because the DMV system of paper titles has many loopholes and does not provide a timely or complete vehicle history for the public. Also, insurance companies are not required to “red flag” all totaled vehicles, posing a significant safety and economic risk to used car buyers who may overpay for a previously wrecked, stolen or flooded car.

Pending legislation would require insurance companies to disclose the VINs of totaled cars to vehicle history providers, such as CarFax and Experian’s Auto Check, at the time of payout to the consumer. A VIN-based system will be much more effective than trying to track damaged vehicles with paper titles that are easily “washed” by fraudulent resellers to hide vehicle damage and gain higher resale profit. This legislation would help consumers and dealers make more informed decisions about the safety and fair market value of vehicles.

Key Points

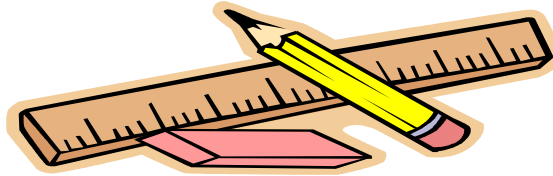
- While hurricanes and flooding demonstrate why this vehicle fraud problem needs to be remedied, the problem is broader than flood vehicles. In 2005 State Farm admitted to reselling at least 30,000 totaled cars without salvage titles which were subsequently purchased by consumers who were unaware their vehicles had previously suffered severe damage.
- Insurance companies, which already collect total-loss data for their own internal databases, could easily transfer total loss data electronically to vehicle history providers so that consumers, dealers, and law enforcement could access this same important information.
- Public disclosure of VINs for all total-loss vehicles would “red flag” totaled vehicles forever and would help consumers by combating auto theft, VIN cloning, and title washing. Most importantly, this legislation would help keep unsafe cars off the road.

Status

Last fall, Senate Republicans and Democrats on the Commerce Committee attempted to draft a consensus bill, but the unexpected retirement of Sen Lott stalled action. NADA will continue to work with coalition partners to ensure further progress on this issue.

Dealership Financial Yardstick

by Bill Wright



When a business owner is immersed in day to day operations, it is sometimes very difficult to see the forest for the trees. This can hinder your ability to objectively look at financial trends and adjust your management operations accordingly. Here are some points you can use as a guideline of vital trends for your business health. Analyzed individually they can sometimes be a help in finding your dealership's Achilles heel. Taken as a whole, they can foretell your financial direction and trend.

As a business owner, you must react to meaningful trends to insure your investment is as safe as possible and your hard work is rewarded. This has become more important than ever over the last year as the automotive marketplace has begun to soften and credit availability has been tightened up. I will provide two types of yardsticks. In this article we will look at some balance sheet measures. Then in a future article we will look at some operational measures. Automotive accounting can be very complex. The typical dealership has several departments that may be accounted for individually. Each department (with the exception of the administrative department) is a separate profit center. Not all independent dealerships have all these departments. Please only consider the appropriate measures for your dealership. If your dealership does not have all the departments referred to in the following guidelines, that does not diminish the value of the other measures.

These guidelines are a yardstick that I have used when analyzing the financial strength and viability of dealerships. I was an executive with a major automotive manufacturer for 24 years prior to coming to work for Dealer Services. My last position prior to retirement was that of dealer credit manager for a major automotive captive finance company.

Balance Sheet Guidelines

Assets

- Cash and Equivalent; should be sufficient for one month's average expenses.
- Contract and Vehicles Receivable; should be less than 3 day vehicles sales.

- Accounts Receivable – Parts and Service; should not exceed 50% of monthly parts and service sales.
- Finance Receivables; should not exceed the current month F&I income.
- Warranty Receivables; should not exceed 110% of manufacturer turnaround time, i.e. GM pays 4 times a month. The receivable should be 27.5% of current month sales.
- New Vehicle Inventory; days supply in dollars and units should equal 45-60 days. Inventory turn should be 6 turns per year.
- Used Vehicle Inventory; days supply in dollars and units should equal 30-45 days. Inventory turn should be 8 turns per year.
- Parts Inventory; amount based on average month cost of parts sold. Guide is 60 days supply. Obsolete parts inventory should be less than 10% of total inventory.

Liabilities

- New Vehicle Floorplan Liability; should not exceed 103% of current inventory.
- Used Vehicle Floorplan Liability; generally an indication of cash deficiencies if more than 50% of used vehicles are floored.

In conclusion, this information is intended to assist you in managing your dealership and your substantial investment. One of the areas of authority provided under Washington State law to Dealer Services is the solvency of individual dealerships. Let's work together to maintain the market stability and consumer protection possible by financially strong dealerships.

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| Newsletter Editor, Kim Zuchlewski | | | |
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| Questions or comments for the editor? Topics / issues you'd like addressed in the next edition of the Fair Dealer Newsletter? Please email kzuchlewsk@dol.wa.gov | | | |
| Dan Devoe Administrator | Bill Wright Western Region Mgr | Lewis Dennie NE Region Mgr | Chuck Coach Licensing/Legal Svcs Mgr |
| Laura Desmul Administrator's Asst. dealers@dol.wa.gov | Amanda Coss Western Region Asst. intdlrsw@dol.wa.gov | Pam Singleton NE Region Asst. intdlrne@dol.wa.gov | Mary Morris Licensing/Legal Svcs Asst. dealers@dol.wa.gov |

Disciplinary Action Cases

April 1 thru June 30, 2008

Charles Edwin Pillon

Finding: Unlicensed dealer activity

Action / Penalty: Cease & desist / \$20,000

TNT Auto Sales

Finding: Place of business violation

Action / Penalty: \$250

Leisure Time R.V. Center

Finding: Late title transfer

Action / Penalty: \$1,000

North Valley Salvage

Finding: Unlicensed dealer activity

Action / Penalty: Cease and desist / \$2,500

Destiny F. Fogle

Finding: Unlicensed dealer activity

Action / Penalty: Cease & desist

Sergey Kushner

Finding: Unlicensed dealer activity

Action / Penalty: Cease & desist / \$3,000

Transport International Pool

Finding: Late title transfers

Action / Penalty: \$10,500

West Coast Autoworks

Finding: Late title transfer

Action / Penalty: \$500

Newport Motors, Inc.

Finding: Late title transfers

Action / Penalty: \$10,000

Ermelinda Arellano Garcia

Finding: Unlicensed dealer activity

Action / Penalty: Cease & Desist / \$5,000

US Express

Finding: Unlicensed dealer activity

Action / Penalty: Cease & desist / \$31,500

Ruth Salinas Sanchez

Finding: Unlicensed dealer activity

Action / Penalty: Cease & desist / \$3,500

Agustin Rojas Garcia

Finding: Unlicensed dealer activity

Action / Penalty: Cease & Desist / \$8,000

VS Auto

Finding: Unlicensed dealer activity

Action / Penalty: Cease & desist / \$1,500

Roman G. Gurmeza

Finding: Unlicensed dealer activity

Action / Penalty: Cease and desist / \$7,000

Elijah Chrisara Nnadi

Finding: Unlicensed dealer activity

Action / Penalty: Cease & desist

Aone Japanese Engine, Inc.

Finding: Salvage

Action / Penalty: Agreement / \$2,000